Provincie Zeeland
Abdij 6 4331BK Middelburg
Postbus 6001 4330 LA Middelburg
+31 118631011
IBAN NL08 BNGH 0285010557

Onderwerp	Zaaknummer	Behandeld door	Verzonden
Besluit Woo-verzoek	537737		

Middelburg, 29 oktober 2024

Geachte heer ,

Op 2 oktober 2024 heeft u Provincie Zeeland gevraagd om informatie. Uw vraag om informatie valt onder artikel 4.1 van de Wet open overheid (Woo). Wij hebben de ontvangst van uw Woo-verzoek op 9 oktober 2024 aan u bevestigd.

Hierbij ontvangt u het besluit op uw Woo-verzoek. Wij hebben besloten de informatie in zijn geheel openbaar te maken. In deze brief geven we uitleg over dit besluit.

Uw verzoek
In uw Woo-verzoek vraagt u om het volgende:

''Graag het complete document, rapport of memo van Adviesbureau Zanders, waarin staat dat de marktconforme garantiepremie is bepaald op 0.155%, zie hieronder. Mocht het onverhoopt al openbaar zijn, dan verneem ik graag waar ik het kan vinden.''

Inventarisatie
We hebben binnen de systemen van Gedeputeerde Staten gezocht en het volgende document gevonden:

- TP Report financial guarantee - GBE Aqua B.V._V2

Overwegingen
Het door ons gevonden document is beoordeeld of deze openbaar gemaakt kan worden. We hebben het algemeen belang van openbaarheid van informatie afgewogen tegen de belangen die in de artikelen 5.1 en 5.2 van de Woo staan. Bij deze beoordeling is gekeken of een van deze belangen zwaarder weegt dan openbaarheid.

Grenzen aan openbaarheid
Wij hebben geoordeeld dat geen van de belangen zoals genoemd in de artikelen 5.1 en 5.2 van de Woo in dit geval zwaarder wegen dan het algemeen belang van openbaarheid van informatie. We maken het door ons aangetroffen document daarom in zijn geheel openbaar.

Openbaarmaking
Dit besluit en de openbaar gemaakte documenten plaatsen wij geanonimiseerd (zonder persoonsgegevens) op www.zeeland.nl/loket/woo-verzoek.

Met vriendelijke groet,

Gedeputeerde Staten van Zeeland,

H.M. de Jonge,
Voorzitter

drs. L.M.L.M. Prevaes,
Waarnemend secretaris-algemeen directeur

Noem in uw contact met ons steeds het zaaknummer. Dit staat bovenaan deze brief.

Bijlagen:
1. TP Report financial guarantee - GBE Aqua B.V._V2

Bezwaar
Belanghebbenden kunnen schriftelijk bezwaar maken tegen dit besluit bij:
Gedeputeerde Staten van Zeeland, t.a.v. de secretaris van de commissie voor bezwaarschriften,
Postbus 6001, 4330 LA Middelburg.

In het bezwaarschrift neemt u ten minste op uw naam en adres, de dagtekening van het bezwaarschrift, tegen welk besluit u bezwaar maakt en waarom. Het bezwaarschrift dient te worden ondertekend.
U moet het bezwaarschrift indienen binnen zes weken na de dag waarop dit besluit is bekendgemaakt. Doorgaans is dat de dag na de datum van verzending. Overschrijding van de inzendtermijn kan ertoe leiden dat met uw bezwaren geen rekening wordt gehouden.
Als u overweegt bezwaar te maken, kunt u meer informatie vinden op https://www.zeeland.nl/bezwaar-maken.

Wij wijzen u erop dat het bezwaar niet de werking van het besluit schorst. U kunt een verzoek doen tot het treffen van een voorlopige voorziening. U richt het verzoek aan de voorzieningenrechter van de rechtbank Zeeland-West-Brabant, locatie Breda, team bestuursrecht, Postbus 90006, 4800 PA Breda. Voor de behandeling van het verzoek is griffierecht verschuldigd.

Transfer Pricing Report

Provincie Zeeland
GBE Aqua B.V.

16 November 2021

ZANDERS INSIDE

Executive summary

This report consists of a transfer pricing analysis of an intercompany guarantee between Provincie Zeeland and GBE Aqua B.V..

The guarantee is issued by Provincie Zeeland in relation to a financing which will be concluded between GBE Aqua B.V. and a third party bank. The external agreement is entered into specifically to finance the purchase of shares in Evides Drinkwater. The external loan will be issued for a total of EUR 354.550.000 and is split into four tranches. Two of these tranches, totalling to EUR 106.365.000 are guaranteed by the transaction under review.

The functional analysis of the transaction under review includes the terms and conditions as well as the legal agreement in place between the parties. The functional analysis is the base of the transfer pricing analysis in this report.

The pricing analysis consists of a parallel assessment of two methods, allowing for an arm's length range for the intercompany guarantee. Firstly, the yield method was used resulting in a maximum guarantee fee of 0,26%. Secondly, the expected loss method was used resulting in a minimum guarantee fee of 0,05%. Based on these two methods, it was determined that a fee of 0,155% is in line with the arm's length principle for the facility under review.

Credit rating

Subsidiary rating: A-
Guarantor rating: AAA

Arm's length guarantee

0.155%

Maximum fee: 0,26%
Minimum fee: 0,05%

Contents

Functional analysis

Transfer pricing analysis

Appendix

Glossary

BCBS	Basel Committee on Banking Supervision
BEPS	Base Erosion and Profit Shifting
CAPM	Capital Asset Pricing Model
CRP	Credit Risk Premium
CUP	Comparable Uncontrolled Price
EAD	Exposure at Default
ECB	European Central Bank
ECL	Expected Credit Loss
EDGAR	Electronic Data Gathering, Analysis, and Retrieval
EL	Expected Loss
F-IRB	Foundation Internal Ratings-Based approach
IBOR	Interbank Offered Rates
IQR	Interquartile Range
IRB	Internal Ratings-Based approach
LGD	Loss Given Default
M	Maturity
OAS	Option Adjusted Spread
OECD	Organisation for Economic Co-operation and Development
PD	Probability of Default
R	Correlation
RWA	Risk-Weighted Assets
S&P	Standard & Poor's
SEC	Securities and Exchange Commission
SRP	Sovereign Risk Premium
TPG	Transfer Pricing Guidelines

Introduction

This report is produced by the Zanders Inside Transfer Pricing Solution for financial transactions. The solution is based on the transfer pricing principles as set out by the Organization for Economic Co-operation and Development (OECD). The report contains the results of the transfer pricing analysis for an intercompany guarantee between Provincie Zeeland and GBE Aqua B.V..

The authoritative statement of the arm's length principle can be found in paragraph 1 of Article 9 of the OECD Model Tax Convention[1], which states:

> "(Where) conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profit which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly."
>
> OECD Model Tax Convention on Income and on Capital (Art. 9)

According to the OECD Model Tax Convention, a transaction complies with the arm's length principle when the conditions imposed are comparable with the conditions of the commercial and financial relations that they would expect to find between independent enterprises in comparable transactions under comparable circumstances. In this report, an arm's length price is determined for an intercompany financial guarantee. The report is based on the transfer pricing principles set out in the OECD Transfer Pricing Guidelines (OECD TPG)[2] which were published in 2017 as well as the transfer pricing guidance on financial transactions (OECD TPG Chapter X)[3]. The last document was released in 2020 and serves as chapter X of the OECD TPG.

The analysis in this report follows two distinct steps. First, a functional analysis of the intercompany transaction is made. Secondly, a maximum and minimum guarantee fee are determined using two different methods. The yield method is used to determine the maximum guarantee fee, while the expected loss method is used to determine the minimum guarantee fee which should be charged. The solution uses these two methods together to provide users with a more accurate indication of the arm's length guarantee fee.

The pricing analysis included in this report takes into account both the credit rating of Provincie Zeeland and GBE Aqua B.V., equal to AAA[4] and A-[5] respectively. No independent analysis was carried out by Zanders to verify the accurateness of these respective credit ratings.

The model is a proprietary transfer pricing model that has been developed by Zanders Solutions B.V.. Any financial information and other input that has been provided by the user of the model to derive the arm's length price is included in this report. Furthermore, the model methodology and underlying assumptions are included in the Appendix.

[1] Model Tax Convention on Income and on Capital, OECD (2017)
[2] Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, OECD (2017)
[3] Transfer Pricing Guidance on Financial Transactions: Inclusive Framework on BEPS: Actions 4, 8-10, OECD (2020)
[4] Assumption based on the government affiliation of Provincie Zeeland with the Kingdom of the Netherlands
[5] Based on the base scenario as included in the Deloitte indicative credit rating analysis from 26 March 2021

Facility characteristics

The intercompany transaction under review in this report is a financial guarantee provided by Provincie Zeeland to GBE Aqua B.V.. The table below summarizes the main characteristics of the financial transaction on which the guarantee is issued:

Transaction characteristics	Value
Currency	EUR
Type of credit facility	guarantee
Structure	Unsecured (LGD 45%)
Tenor (weeks)	294
Start date	08/12/2021
End date	31/07/2027

As also detailed above, the guarantee under review is applied on two tranches of the external loan agreement. The first tranche amounts to EUR 15.000.000 and is a bullet transaction with a floating interest rate.

The second tranche amounts to EUR 91.365.000, has a fixed interest rate and has the below repayment schedule.

Repayment date	Repayment amount (EUR)
31/07/2022	21.765.000
31/07/2023	22.500.000
31/07/2024	13.500.000
31/07/2025	15.000.000
31/07/2026	16.500.000
31/07/2027	2.100.000

For the purpose of this analysis, the two tranches are regarded together as none of their deferring characteristics would impact the height of the guarantee fee.

The table below provides the company information for Provincie Zeeland and GBE Aqua B.V., respectively:

Company information	
Company (legal) name	Provincie Zeeland
Country of residence	Netherlands
Credit rating	AAA

Functional analysis

In the context of a transfer pricing analysis, the OECD Transfer Pricing Guidelines require a functional analysis. The functional analysis consists of an analysis of functions performed, risks assumed and assets used by the parties entering the transaction. The OECD Transfer Pricing Guidelines describe the purpose of the functional analysis as follows:

> "In transactions between two independent enterprises, compensation usually will reflect the functions that each enterprise performs (taking into account assets used and risks assumed). Therefore, in delineating the controlled transaction and determining comparability between controlled and uncontrolled transactions or entities, a functional analysis is necessary. This functional analysis seeks to identify the economically significant activities and responsibilities undertaken, assets used or contributed, and risks assumed by the parties to the transactions."
>
> OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (Art. 1.51)

These principles hold for any intercompany transactions, incl. intercompany financial guarantees. The analysis outlined in this report starts from the assumption that all provided data is in line with the economic reality of the transaction and that the provision of the guarantee is at arm's length. This analysis only determines an arm's length remuneration to remunerate the enhancement of the terms of borrowing for the guarantee holder. It does not analyse whether the guarantee holder has access to a larger amount of borrowing due to the guarantee[6]. The Transfer Pricing Solution assumes that the transaction would have the same characteristics between independent parties.

The below sections provide a general analysis of the functions performed and risks assumed by Provincie Zeeland and GBE Aqua B.V. in the guarantee agreement under review. The variables used in the solution should be based on the internal guarantee agreement together with the agreement of the underlying transaction for which the guarantee is issued. It is assumed that the written agreements are in line with the actual conduct of the parties[7].

Functions performed

The facility under review in this report is an intercompany financial guarantee between Provincie Zeeland and GBE Aqua B.V.. The functions performed in connection with the granting of loans, advances or guarantees to related enterprises are, in substance, comparable to the functions performed by independent financial institutions[8]. The functions assumed by independent financial institutions therefore provide a reasonable reference to the functions performed by Provincie Zeeland and GBE Aqua B.V. in the facility under review.

The functions that are typically undertaken by entities carrying out intercompany financing activities broadly consist of the origination and management of the transaction, which includes the following functions:

- **Structuring the transaction:** Identifying the structure and risk of the transaction and deciding on granting of the financing;
- **Administrating the transaction:** Executing and administering the financial transaction;
- **Risk monitoring:** Reviewing the transactions' risks and guarantees throughout its lifetime; and
- **Managing the refinancing:** Managing the possible refinancing of the transaction.

[6] Transfer Pricing Guidance on Financial Transactions (2020), §10.161
[7] Transfer Pricing Guidance on Financial Transactions (2020), §10.22
[8] Transfer Pricing Guidance on Financial Transactions (2020), §10.18, §10.23 – §10.24 and §10.26

Risks assumed

The OECD Transfer Pricing Guidelines require that the material risks assumed by each party are identified and considered, as the assumption of these risks influences the arm's length remuneration of the transaction. The OECD Transfer Pricing Guidelines define risk as follows:

> "In a transfer pricing context it is appropriate to consider risk as the effect of uncertainty on the objectives of the business. In all of a company's operations, every step taken to exploit opportunities, every time a company spends money or generates income, uncertainty exists, and risk is assumed."
>
> OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (Art. 1.71)

Financial transactions will mainly create financial risks for the lending entity, which may arise from the following factors:

- **Credit risk:** The OECD defines credit risk as the potential that the borrower will fail to meet its payment obligations in accordance with the terms of the loan. In terms of a guarantee, the credit risk represents the likelihood that the guarantee holder fails to meet its financial obligations on which the guarantee is applicable[9];
- **Economic conditions:** external risks caused by the economic environment, political and regulatory events, competition, technological advance, or social and environmental changes.[10]

The level of risks assumed is analysed by combining a credit assessment of the subsidiary with the relevant terms & conditions of the transaction, e.g. the level of collateral, the maturity, the repayment schedule, currency, etc. The analysis assumes that the lending entity bears these risks and has the financial capacity to assume them.

Given the nature of the transaction under review and the functions performed by the parties in the transaction, Provincie Zeeland assumes credit risk with respect to GBE Aqua B.V..

Effect of group membership

Before determining an arm's length price for an intercompany guarantee, its important to assess the subsidiary's willingness to pay for such a guarantee. In this regard, it should be analysed whether other financial commitments already ensure that the guarantor would be required to assist the holder of the guarantee. The OECD TPG on financial transactions offers several of such examples[11]. One example would be where the guarantor has covenants which prevent the group from letting specific subsidiaries go into default. Another example could be if there are cross guarantees in place between entities in the group in relation to a cash pooling agreement.

In such cases, it could be argued that a subsidiary would not be willing to pay an additional fee, as its commitments are guaranteed already due to an existing arrangement. For the purpose of this analysis, it is assumed that no other commitments are in place within the group which in fact also ensure that the financial obligations of the subsidiary are guaranteed by the guarantor.

[9] Transfer Pricing Guidance on Financial Transactions (2020), §10.154
[10] Transfer Pricing Guidance on Financial Transactions (2020), §10.58 and §10.161
[11] Transfer Pricing Guidance on Financial Transactions (2020), D.1.2.

Transfer pricing methods

The OECD transfer pricing guidelines for financial transactions provide 5 different methods to determine the arm's length price for a financial guarantee[12]. A general description of each of the methods is provided in the following sections.

CUP method

The CUP method is the preferred method and can be used when internal or external comparables are available. The main difficulty in finding external comparables is that this type of transaction is unlikely to take place between unrelated parties. Information on guarantees is not generally available through databases.

Difficulties which apply to both internal and external comparables, is that all underlying conditions which could influence the price of the guarantee, should be comparable. This includes the difference in rating between the guarantor and the subsidiary, as well as the terms of the underlying financial transaction.

Yield approach

The aim of the yield approach is to determine the difference in financing cost for the subsidiary with or without having the guarantee in place. In other words, first the arm's length interest rate on the guaranteed transaction should be determined taking into account the credit rating of the subsidiary. Note that implicit group support should be accounted for in the credit rating of the subsidiary[13]. In a second step, the same terms and conditions are used to determine an arm's length interest rate, but the credit rating of the guarantor is used. Lastly, the difference between those two rates is determined to be the maximum guarantee fee.

The yield approach does not determine the final arm's length price but the maximum willingness to pay for the subsidiary. If it were to pay the full fee, the guarantee would not offer any benefit. Conversely if no fee was paid, the guarantor would not have any incentive to issue a guarantee.

Cost approach

The cost approach bases itself on the additional cost which the guarantor incurs by issuing the guarantee. This cost can be quantified as the expected loss and is dependent on the loss given default (LGD). Another approach to quantifying this cost is related to the capital which would be required to cover the additional risk.

An array of different models can be used for this approached, several examples are mentioned in the OECD TPG for financial transactions. An important aspect of this approach is that, irrelevant of which model is actually used, the outcome will represent the minimum guarantee fee. As the cost for the guarantor is determined using this method, this would be the minimum remuneration the guarantor would require to issue the guarantee.

Valuation of expected loss approach

The valuation of expected loss approach adds an additional layer to the cost approach. Firstly, the cost of providing a guarantee is determined. Secondly, an expected return on the calculated cost can be determined using capital pricing models. An example model provided in the OECD TPG for financial transactions is the Capital Asset Pricing Model (CAPM).

[12] OECD Guidance on Financial Transactions (2020), section D.2.
[13] OECD Guidance on Financial Transactions (2020), section D.2.2.

Capital support method

The capital support method aims to derive a guarantee price based on the cost of the capital required to improve the rating of the subsidiary to the rating of the guarantor. Firstly the rating of the subsidiary is determined taking into account implicit group support. Secondly, capital is added to the subsidiaries' balance sheet to the level required to reach a credit rating equal to the rating of the guarantor. Lastly, an expected return is calculated on the required capital to arrive at a guarantee fee.

Selection of transfer pricing method

While the previous section outlines the available methods in general, this section will provide more information on the methods which are used in the Transfer Pricing Solution.

The CUP method was rejected due to a lack of data availability in order to apply this method. Following the rejection of the CUP method, the other methods available were analysed. The yield method was deemed the most appropriate and easiest to apply as data is readily available. However, the yield method only provides an indication of a maximum guarantee fee. Consequently, the Zanders Transfer Pricing Solution also incorporates the cost approach method. This allows for a calculation of both a maximum and minimum guarantee fee. This range will provide a more accurate range to determine the final arm's length margin. More information on both methods is provided below.

Yield method

As described in the previous section, the yield method uses the difference in financing cost as a basis for the maximum guarantee fee. The solution will calculate an arm's length interest rate, taking into account the stand-alone rating of the subsidiary including implicit group support. Subsequently, an arm's length interest rate is determined using the credit rating of the guarantor. The difference between these two interest rates is the maximum guarantee fee which can charged (Figure 1). The Transfer Pricing Solution uses the external CUP methodology to determine both interest rates. More information on the selection of the CUP method for this purpose has been added in Appendix.

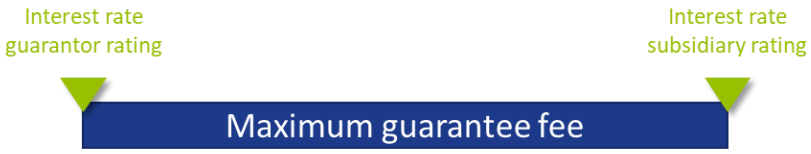

Figure 1 Yield method - max guarantee fee

The calculation of the maximum guarantee fee bases itself on the terms and conditions of the financial transaction for which the guarantee is issued.

Cost approach

The OECD TPG for financial transactions describe multiple methods which can be used to determine the cost of providing the guarantee for the guarantor. One of the methods with the least model risk, is the expected loss method. This method will determine the amount which the guarantor can reasonably expect to lose by providing the guarantee. It can be determined by adjusting the probability that the entity will go into default for the loss that would be incurred if the entity goes into default. Expected loss can be defined as follows:

$$EL = PD\ x\ LGD\ x\ EAD$$

Whereby

EL: Expected loss
PD: probability of default
LGD: loss given default
EAD: exposure at default[14]

[14] The EAD is equal to the outstanding amount of the financial transaction. Note that for the purpose of calculating the guarantee fee, EL is expressed as a percentage of the exposure at default (EAD).

The guarantee fee which is determined as a percentage, is in any case multiplied by the outstanding amount of the financial transaction to arrive at the total absolute amount to be paid. The probability of default is determined by the credit rating of the subsidiary, a mapping can be found in Appendix. Finally, the LGD is defined by the financial transaction to which the guarantee applies. More in particular, the LGD depends on the type of collateral (if any) under the financial transactions or level of subordination. The mapping to the specific LGD percentage is based on Basel guidelines[15].

[15] Basel Committee on Banking Supervision, Basel Framework, Calculation of RWA for credit risk

Pricing assessment

This section contains the results of the pricing assessment for the intercompany financial guarantee between Provincie Zeeland and GBE Aqua B.V., as determined by the Transfer Pricing Solution.

As also mentioned in the previous sections, determining an arm's length fee for the guarantee under review will be done by using two methods in parallel. Both methods are first outlined separately in the below sections.

Yield method

The yield method uses the transfer pricing assessment methodologies for intercompany term loans to determine the arm's length credit risk premium. The terms and conditions which are used to determine the credit risk premium are based on the terms and conditions of the underlying guaranteed transaction. Consequently, for the purpose of this analysis the tested transaction refers to transaction underlying the guaranteed transaction. The terms and conditions of the tested transaction will include both the rating of the guarantor and the rating of the subsidiary. Consequently, the calculation to determine an arm's length rate is made twice, once with the rating of the subsidiary and once using the rating of the guarantor.

The credit risk premium is determined by the Transfer Pricing Solution based on the CUP method, using corporate bond data from the secondary bond market. The bond data is extracted from Eikon. To eliminate the effects of differences between the selected corporate bonds and the facility under review, the corporate bond spreads are adjusted for differences in the aggregate risk profile of the transaction.

The credit risk premiums which are used as a base for the yield method are determined based on the spreads of corporate bonds in the secondary bond market. More in particular, the Transfer Pricing Solution determines the relationship between the OAS and the aggregate risk profile of each of the corporate bonds. Based on this data, a regression is derived between the OAS and the aggregate risk profile. This regression is subsequently used to determine the arm's length spread of the tested transactions based on its aggregate risk profile. For the purpose of the transaction under review, the regional EUR curve has been used to determine the arm's length margins.

The below table provides the values of PD, LGD, EAD and M that have been used to determine the aggregate risk profile and therefore the credit risk premiums. The aggregate risk profile results in the below arm's length credit margins, which are subsequently used to determine the maximum guarantee fee.

Credit risk premium	Pricing with explicit guarantee	Pricing without explicit guarantee
PD	0,03%	0,10%
M (in weeks)	294	294
LGD	45%	45%
Credit risk premium	0,26%	0,52%
Maximum guarantee fee		**0,26%**

In addition to the regression analysis, the solution determines an interquartile range based on the 30 most comparable transactions. The interquartile range of the credit risk premiums of the most comparable bonds to tested transactions are reflected in the below table. Note that the OAS of the bonds (as reflected in detail in the Appendix to this report) are adjusted for their sovereign risk premium (if applicable) before determining the below range.

Credit risk premium	Pricing with explicit guarantee	Pricing without explicit guarantee
Upper quartile	0,30%	0,52%
Median	0,27%	0,36%
Lower quartile	0,22%	0,23%

The full details of the pricing analysis for the underlying financial transactions are provided in Appendix.

Cost approach

As also detailed above, the Transfer Pricing Solution uses the expected loss method to determine the cost for the guarantor. The probability of default which is used in this calculation is based on the stand-alone credit rating including group support of the subsidiary. The details of the determination of the rating can be found in the credit rating analysis section of this report. The full mapping from the rating to the PD can be found in Appendix.

Expected loss	Value
Subsidiary rating	A-
Probability of default	0,10%
Loss given default	45%
Minimum guarantee fee	0,05%

Final guarantee fee

The above determinations of the minimum and maximum guarantee fee lead to the below arm's length range for the guarantee fee under review. The final fee applied fee applied for the guarantee is 0,155%.

The fee applied was determined by the average between the maximum and minimum guarantee fee. This ensures both parties, i.e. the guarantor and the guarantee holder, have an equal gain from entering in the transaction.

Final guarantee fee	Value
Maximum guarantee fee	0,26%
Minimum guarantee fee	0,05%
Final guarantee fee applied	0,155%

Conclusion

The purpose of this transfer pricing analysis is to determine an arm's length price for the controlled transaction under review. As data on comparable uncontrolled transactions is not readily available, the CUP method was not applied. The analysis in this report uses a dual method approach, which allows the calculation of a range of arm's length guarantee fees.

Firstly, the yield method was used to derive a maximum guarantee fee. The yield method applied in this report uses the CUP method and more in particular bond data from the secondary market. The application of the yield method resulted in a maximum guarantee fee of 0,26%

Secondly, the expected loss method was used to derive a minimum guarantee fee. The stand-alone rating of the subsidiary, taking into account implicit group support, was used to deriver the probability of default. The terms and conditions of the guaranteed transaction were used to derive the loss given default. This resulted in a minimum guarantee fee of 0,05%.

Based on the range of arm's length fees which resulted from the application of the yield and expected cost methods, it was determined that a fee of 0,155% is in line with the arm's length principle for the transaction under review.

Yield approach methodology

For the purpose of the yield method, the Transfer Pricing Solution uses the CUP method to determine the arm's length credit risk premium for the facilities under review. More particularly, the solution uses corporate bonds from the secondary bond market as comparable uncontrolled transactions to derive an arm's length spread. Comparability adjustments are applied to eliminate differences between the corporate bonds and the facilities under review, based on the aggregate risk profile of the facilities. The determination of the aggregate risk profile of the facility is based on banking best practices for the measurement of credit risk. This section provides more information on the selection of the CUP method for the purpose of this analysis as well as the methodology itself.

Selection of the CUP method

The CUP method is the most direct and reliable way to apply the arm's length principle. Moreover, article 2.15 of the OECD Transfer Pricing Guidelines recognizes the CUP method as being preferable over all other methods, provided that it is possible to locate comparable uncontrolled transactions:

> "Where it is possible to locate comparable uncontrolled transactions, the CUP method is the most direct and reliable way to apply the arm's length principle. Consequently, in such cases the CUP method is preferable over all other methods."
>
> OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (Art. 2.2)

As the CUP method is feasible and the preferred method, the appropriateness of the other listed methods is not analysed in more detail.

Comparable Uncontrolled Financial Transactions

Comparability requirements and data availability drive the selection of the appropriate set of comparable uncontrolled financial transactions. Due to data availability, multiple types of financial transactions may be used to price the internal transactions such as bonds, loans, commercial paper, deposits, etc. [16]

Sufficient and representative data on the corporate loan market is generally not readily available. For example, financial institutions in Europe are obliged to report qualifying loans to the European Central Bank (ECB). The ECB stores this granular, loan-by-loan data in its Analytical Credit Database (AnaCredit). Unfortunately, this information is not made public and therefore there is no public database available with intercompany or corporate external loan information in the European Union.[17]

In the US, the Securities and Exchange Commission (SEC) obliges companies to report on their loan agreements via their SEC filings. The 8-K form should contain the original loan agreement. This Electronic Data Gathering, Analysis, and Retrieval (EDGAR) database is publicly available on the website of the SEC. Unfortunately, this data is unstructured and designed to retrieve data on an enterprise basis not on transaction type basis. In addition, other considerations on comparability requirements such as geographic representativeness arise from using this data source.

As data on corporate bonds is readily available through market data providers and the characteristics of bonds traded on the secondary market are highly comparable, the use of this data as a proxy to price loans is widely accepted. There are two sources of corporate bond data: primary market data and secondary market data. Primary market data consists of new corporate bond issues, including other types of fixed-income securities, such as medium-term notes. Primary market data is usually concentrated in higher credit quality issuers and relies on the price as set by the bond

[16] OECD Guidance on Financial Transactions (2020), §10.93

[17] www.ecb.europa.eu/explainers/tell-me-more/html/anacredit.en.html

issuer. From a transfer pricing perspective, primary market data does not qualify as a reliable source of information due to insufficient coverage and low information frequency.

The second source of corporate bond data is based on the secondary bond market. This data includes information such as option-adjusted spreads (OAS), credit rating, industry, etc. and is readily available. Similar to the prices of intercompany financial transactions, bond yields are driven by various credit risk factors, such as the creditworthiness of the counterparty, transaction characteristics and the value of underlying collateral. Furthermore, corporate bond prices are transparent, available at a regular frequency and less affected by idiosyncratic pricing components that may be present in the prices of bank loans.

Corporate bond yields and yield spreads are impacted by more than just the level of credit risk associated with the risk profile of the bond. For example, corporate bonds are usually issued with a fixed interest rate or coupon. This creates interest rate risk for the investor since changes in the market interest rate relative to the corporate bond's fixed coupon rate will influence the price of the bond. Furthermore, some corporate bonds contain embedded options, which will affect the yields of these bonds. To account for these interest rate risk factors, the option-adjusted spread (OAS) of corporate bonds can be used to model the credit risk premium.

Based on the above, it can be concluded that corporate bond transactions in the secondary bond market provide a reliable source of information from a transfer pricing perspective. In particular, the OAS and corresponding credit risk profiles of corporate bonds issued in EUR, USD, GBP and CHF are used by the Transfer Pricing Solution.

Characterization of the financial transaction

Following bank practices, it is appropriate to determine the arm's length interest rate for intercompany transactions as the sum of the base costs of financing (i.e. base or reference rate) and risk premiums.

To reflect the base costs of financing, Interbank Offered Rates (IBORs, for tenors up to one year) and interest rate swap (IRS, for tenors of more than one year) rates can be used. The premiums in the secondary bond market are primarily driven by credit risk factors, as specified by the Basel Committee on Banking Supervision. To be able to compare the OAS' of corporate bond transactions to the facility under review, the credit risk profiles of the corporate bonds and the facility under review must be assessed in a consistent manner and measured on the same scale.

An assessment of the credit risk profiles of the corporate bond transactions and the facility under review can be made by considering commonly applied credit risk drivers: the probability of default (PD), loss given default (LGD), exposure at default (EAD), maturity (M), currency and country. The PD of a transaction is determined by the credit rating of the borrower. The LGD and EAD of a transaction are determined by the structure and type of facility, respectively.

This methodology captures all characteristics of the financial instruments as set forth by the OECD:

- The amount of the loan;
- The maturity;
- The repayment schedule;
- The purpose of the loan;
- The geographical location of the borrower;
- The currency;
- The collateral provided or level of subordination.[18]

These credit risk drivers are bundled into one aggregate credit risk profile based on the F-IRB method.[19] In general, the aggregate risk profile is influenced by the following key components:

- **Risk profile of the borrowing entity:** the credit risk premium depends in part on the creditworthiness of the borrower. The creditworthiness of the borrower is estimated in terms of PD, which is derived from the credit rating of the borrower;

[18] OECD Guidance on Financial Transactions (2020), §10.29, §10.89 - §10.90

[19] International Convergence of Capital Measurement and Capital Standards, BCBS (2006)

- **Risk profile of the transaction:** the risk profile of the facility is influenced by the facility characteristics. Key risk factors include the type of facility, tenor, repayment schedule and seniority of the transaction. The facility characteristics determine the EAD, LGD and M of the transaction.

Comparability adjustments

Any material difference in terms and conditions between the tested financial transaction and the selected comparable transactions should be reflected by an appropriate comparability adjustment. This can be done by substituting the resp. credit risk parameter and adjusting the risk premium for the difference in the aggregate credit risk profile. Following such adjustment(s), the spread of the selected comparable transactions can be used as a benchmark to determine the price of the tested transaction.[20]

As determined in the functional analysis, the functions assumed by related parties when engaging in intercompany financing transactions are comparable to those assumed by independent financial institutions. Consequently, the factors that influence the pricing of these institutions are used to determine if a comparability adjustment is needed. The F-IRB method is used to create the granular quantitative comparability adjustments for each of the characteristics of the financial instrument.[21] More information on this pricing methodology can be found in the next section.

Economic modelling

The Transfer Pricing Solution relies in part on economic modelling. The OECD states the importance of clarity on the model methodology when economic models are used. [22] Therefore, the credit rating and pricing methodology are described in more detail in the previous and below sections.

Pricing methodology

Credit risk premium

The credit risk premium represents additional costs due to the credit risk profile of the transaction. The credit risk premium is derived by the Transfer Pricing Solution by applying the CUP method. For the purposes of the CUP method, corporate bond data from the secondary bond market is used to identify comparable uncontrolled transactions. In particular, the OAS of corporate bonds is used as a starting point for deriving the arm's length credit risk premium of the facility under review.

Article 2.15 of the OECD Transfer Pricing Guidelines states that an uncontrolled transaction can be considered a comparable uncontrolled transaction if reasonably accurate adjustments can be made to eliminate the material effects of differences (if any) between the transactions being compared. In order to make the corporate bond data comparable to the facility under review, the Transfer Pricing Solution applies a comparability adjustment based on differences in the aggregate risk profiles of the transactions.

Repayment schedule

The repayment schedule is one of the drivers when assessing the credit risk profile of a financial transaction. A user can choose between a bullet repayment schedule, a linear repayment schedule or a customized repayments schedule. For the transaction under review a customized repayment schedule was used, based on the repayment schedule of the third party loan. More specifically, the repayment schedule of the two tranches to which the transaction under review applies was used.

Repayment date	Repayment amount (EUR)
31/07/2022	21.765.000
31/07/2023	22.500.000
31/07/2024	13.500.000

[20] OECD Guidance on Financial Transactions (2020), §10.93
[21] OECD Guidance on Financial Transactions (2020), §10.20
[22] OECD Guidance on Financial Transactions (2020), §10.106

31/07/2025	15.000.000
31/07/2026	16.500.000
31/07/2027	17.100.000

Aggregate risk profile

The aggregate risk profile is defined by the PD, LGD, EAD and M of the facility. The PD of the facility is derived from the credit rating of the borrowing entity, based on the Zanders Rating Scale (see the next section in this Appendix).

The LGD is determined based on the seniority of the transaction. For senior secured facilities, an LGD of 15% or 25% can be selected by the user, depending on the quality of the collateral. For senior unsecured facilities an LGD of 45% is applied, which is in accordance with the F-IRB Foundation approach under Basel II standards.[23] For subordinated facilities an LGD of 75% is applied and for near-equity facilities an LGD of 90% is applied.

For the purpose of deriving the credit risk premium, the EAD is defined in percentage terms relative to the current outstanding amount of the facility. Finally, M represents the effective maturity of the facility.

Comparability adjustments

The OECD Transfer Pricing Guidelines point out the need to adjust comparables and the requirement for accuracy and reliability. Regarding the purpose of comparability adjustments, the OECD Transfer Pricing Guidelines state the following:

> "Comparability adjustments should be considered if (and only if) they are expected to increase the reliability of the results. Relevant considerations in this regard include the materiality of the difference for which an adjustment is being considered, the quality of the data subject to adjustment, the purpose of the adjustment and the reliability of the approach used to make the adjustment."
>
> OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (Art. 3.50)

As discussed above, the key material differences between the uncontrolled transactions in the secondary bond market and the facility under review are differences in aggregate risk profiles. To make the OAS of corporate bonds comparable to the facility under review, adjustments are made to eliminate the effects of differences in aggregate risk profiles.

[23] International Convergence of Capital Measurement and Capital Standards, BCBS (2006).

Search strategy

The below search strategy applies to the CUP method which is used in the yield approach in this analysis.

Background

The search and selection of the most comparable bonds can be broken down into three distinct steps:

1. Download of bond data from Refinitiv Eikon, subject to search criteria;
2. Removal of outliers from the downloaded set and subsequently deriving the regression; and
3. Selection of the most comparable transactions to the tested transaction by minimising the comparability adjustments

Each of the three steps is explained in more detail in the below sections. Note that step 1 and 2 occur on a monthly basis, when updating the bond data in the Transfer pricing Solution. The data is downloaded on the second Tuesday of every month. Step 3 on the other hand occurs each time a new transaction is priced in the Transfer Pricing Solution.

Step 1. Download of the bond data from Refinitiv Eikon

For the purpose of determining the arm's length credit margin, the Transfer Pricing Solution relies on corporate secondary bond data from the Refinitiv Eikon database. The below search criteria were used to download a set of comparable bonds by using the GOVSRCH function.

- Credit rating[24]:
  - S&P long-term issuer rating greater than R; or
  - Moody's long-term issuer rating greater than WR; or
  - Fitch long-term issuer default rating greater than RD
- Asset status: exclude not active
- Currency: USD, EUR, GBP, CHF
- Issue date: after 01/01/2008
- Maturity: before 15 years from the last day of the month of the data update. e.g. for the data update of May 2020, this criteria will be set to before 31/05/2035
- Issuer type: include corporates
- Sector: exclude banks and independent finance
- Seniority: include Secured, Senior Secured, Senior Unsecured, Subordinated Secured, Subordinated Unsecured, Unsecured
- Instrument type: include Bond, Debenture, Note
- Yield spread (OTR) to Maturity: greater than 0
- Exclude bonds with any of the following characteristics: Callable, Puttable, Extendible, Perpetual, Has Sinking Fund, Multi-step, Pay in Kind, Annuity bond

The above search criteria result in a set of **5,000 to 6,000 bonds** which are downloaded from Eikon for further analysis.

Step 2. Regression over the downloaded set

The Transfer Pricing Solution makes use of a regression analysis to derive the credit risk premium for tested transactions. Before this regression analysis is made additional filters are applied to the downloaded set, mainly to exclude outliers so as to avoid any distortion of the regression. The following filters were applied:

- Time to maturity: between 0 and 40 years
- Rating: bonds where no rating is available are filtered out
- Industry: exclude financials and government bonds
- OAS: bonds where no value for OAS is available are filtered out

[24] These filters ensure there is at least one of the three ratings available for the bonds

Additionally, as is common practice when estimating a model, outliers (i.e. extreme values in option-adjusted spread) are filtered out based on the Basel methodology for expected loss. [25]

In addition to the above, the regression is run on a global basis (i.e. using all 4 currencies) and regional basis for both EUR and USD. This results in the below sets of bonds that are used for the relevant regression as well as for the selection of the most comparable bonds.

- Global EUR and USD: approximately **2,500 bonds**
- Regional EUR: approximately **800 EUR bonds**
- Regional USD: approximately **1,400 USD** bonds

It is up to the user to select the data set to be used in their analysis, based on the appropriateness to the transaction they are trying to price.

Step 3. Selection of the thirty most comparable bonds

For each of the bonds in the selected data set, comparability adjustments are made to reflect the difference between the tested transaction and the resp. bond. These comparability adjustments are made for any differences in the below characteristics. More details on the calculation of the comparability adjustments can be found in the pricing methodology.

Characteristics taken into account for the credit risk premium:

- Rating
- Maturity
- Structure (LGD level)
- Repayment schedule
- Currency
- Idiosyncratic risk: the difference between the credit risk premium of the bond and the credit risk premium derived from the regression, using the same risk profile (i.e. the distance between the bond and the regression curve)[26]

Characteristics taken into account for the sovereign risk premium:

- Maturity
- Country
- Currency

The **__PRICING.COMPARABLESNUMBER__ most comparable bonds** are selected by minimising the sum of the absolute values of the above comparability adjustments. This ensures that the bonds of which the above characteristics are most similar to the characteristics of the tested transaction are selected from the dataset used.

[25] More details on the calculation of the expected loss as well as the Basel spread can be found in the pricing methodology.

[26] Note that idiosyncratic risk is taken into account for the selection of the most comparable transactions but the bond's OAS is not adjusted for this component when calculating the interquartile range.

Selected comparables for the transactions under review

The below lists of secondary corporate bonds is used to calculate the IQR for the transactions under review. Certain key characteristics are given for each selected bond, including the option-adjusted spread. Should the SRP be disabled, then the OAS (excl. the SRP) of the bond is presented. These characteristics are subject to comparability adjustments in order to make the bond comparable to the facilities under review. These comparability adjustments are given in the grey rows below each comparable and noted in basispoints.

This idiosyncratic pricing elements drives the degree of variability of the credit risk premium and is not used to adjust the OAS. These adjusted OAS' are used to create the IQR. Finally, the adjusted OAS is given for each comparable as well.

Comparables for the GBE Aqua B.V. credit rating

Facility under review		CRP						SRP				LRP	Margin
	Issuer	Rating	Maturity	Currency	Structure	Repaym.		Maturity	Repaym.	Country	Currency	Type	
	GBE Aqua B.V.	A3	297	EUR	Unsecured (LGD 45%)	Custom		297	Custom	NL	EUR	guarantee	58
Comparable transactions		**CRP**						**SRP**				**LRP**	**Margin**
ISIN	Issuer	Rating	Maturity	Currency	Structure	Repaym.	Ideosyn.	Maturity	Repaym.	Country	Currency	Type	OAS
XS1642641812	SGSP (AUSTRALIA) ASSETS PTY LTD	A3	295	USD	Unsecured (LGD 45%)	Bullet		295	Bullet	AU	USD	Bond	80
	Comparability adjustments	-	-	-1	-	-16	-1	-	-1	-4	-	-	59
US75513EBY68	RAYTHEON TECHNOLOGIES CORP	A3	301	USD	Unsecured (LGD 45%)	Bullet		301	Bullet	US	USD	Bond	74
	Comparability adjustments	-	-1	-1	-	-16	6	-	3	-7	-	-	52
XS1457527015	SGSP (AUSTRALIA) ASSETS PTY LTD	A3	246	USD	Unsecured (LGD 45%)	Bullet		246	Bullet	AU	USD	Bond	73
	Comparability adjustments	-	9	-1	-	-16	-3	-	-1	-4	-	-	61
XS2082414272	VASAKRONAN AB (PUBL)	A3	420	USD	Unsecured (LGD 45%)	Bullet		420	Bullet	SE	USD	Bond	97

Comparability adjustments		-	-22	-1	-	-16	-1	-	-	1	-	-	59
USU25497AR66	WALT DISNEY CO	A3	335	USD	Unsecured (LGD 45%)	Bullet		335	Bullet	US	USD	Bond	76
Comparability adjustments		-	-7	-1	-	-16	9	-	3	-7	-	-	49
FR0013369840	VINCI SA	A3	360	USD	Unsecured (LGD 45%)	Bullet		360	Bullet	FR	USD	Bond	101
Comparability adjustments		-	-12	-1	-	-16	-1	-2	-3	-9	-	-	59
US254687DM53	WALT DISNEY CO	A3	335	USD	Unsecured (LGD 45%)	Bullet		335	Bullet	US	USD	Bond	76
Comparability adjustments		-	-7	-1	-	-16	9	-	3	-7	-	-	49
US254687DL70	WALT DISNEY CO	A3	335	USD	Unsecured (LGD 45%)	Bullet		335	Bullet	US	USD	Bond	76
Comparability adjustments		-	-7	-1	-	-16	9	-	3	-7	-	-	49
USU25497AS40	WALT DISNEY CO	A3	338	USD	Unsecured (LGD 45%)	Bullet		338	Bullet	US	USD	Bond	76
Comparability adjustments		-	-7	-1	-	-16	10	-	3	-7	-	-	48
US254687DN37	WALT DISNEY CO	A3	338	USD	Unsecured (LGD 45%)	Bullet		338	Bullet	US	USD	Bond	76
Comparability adjustments		-	-7	-1	-	-16	10	-	3	-7	-	-	48
XS1722899918	FINGRID OYJ	A2	315	EUR	Unsecured (LGD 45%)	Bullet		315	Bullet	FI	EUR	Bond	51
Comparability adjustments		23	-3	-	-	-15	3	-	-	-	-	-	55
XS1683348186	BRITISH LAND COMPANY PLC	A3	409	GBP	Unsecured (LGD 45%)	Bullet		409	Bullet	GB	GBP	Bond	86
Comparability adjustments		-	-20	-1	-	-16	8	-	1	-	-	-	50
US75513EBZ34	RAYTHEON TECHNOLOGIES CORP	A3	364	USD	Unsecured (LGD 45%)	Bullet		364	Bullet	US	USD	Bond	100
Comparability adjustments		-	-12	-1	-	-16	-9	1	3	-7	-	-	67
US92343VDY74	VERIZON COMMUNICATIONS INC	A3	279	USD	Unsecured (LGD 45%)	Bullet		279	Bullet	US	USD	Bond	57

Comparability adjustments		-	3	-1	-	-16	19	-	3	-7	-	-	39
CH0307256435	PSP SWISS PROPERTY AG	A3	118	CHF	Unsecured (LGD 45%)	Bullet		118	Bullet	CH	CHF	Bond	39
Comparability adjustments		-	32	-	-	-15	1	-	-	1	-	-	57
CH0262881458	PSP SWISS PROPERTY AG	A3	169	CHF	Unsecured (LGD 45%)	Bullet		169	Bullet	CH	CHF	Bond	39
Comparability adjustments		-	23	-	-	-15	10	-	-	1	-	-	47
XS1771909345	ASSA ABLOY AB	A3	275	EUR	Unsecured (LGD 45%)	Bullet		275	Bullet	SE	EUR	Bond	38
Comparability adjustments		-	4	-	-	-15	30	-	-	1	-	-	28
FR0011637750	AUTOROUTES DU SUD DE LA FRANCE SA	A3	367	EUR	Unsecured (LGD 45%)	Bullet		367	Bullet	FR	EUR	Bond	90
Comparability adjustments		-	-13	-	-	-15	9	-2	-3	-9	-	-	49
CH0319403777	PSP SWISS PROPERTY AG	A3	233	CHF	Unsecured (LGD 45%)	Bullet		233	Bullet	CH	CHF	Bond	38
Comparability adjustments		-	12	-	-	-15	23	-	-	1	-	-	34
CH0536892588	SGS SA	A3	260	CHF	Unsecured (LGD 45%)	Bullet		260	Bullet	CH	CHF	Bond	37
Comparability adjustments		-	7	-	-	-15	29	-	-	1	-	-	29
XS1190974011	BP CAPITAL MARKETS PLC	A3	275	EUR	Unsecured (LGD 45%)	Bullet		275	Bullet	GB	EUR	Bond	37
Comparability adjustments		-	4	-	-	-15	32	-	1	-	-	-	26
XS0997565436	SCHIPHOL NEDERLAND BV	A2	213	EUR	Unsecured (LGD 45%)	Bullet		213	Bullet	NL	EUR	Bond	36
Comparability adjustments		19	15	-	-	-15	3	-	-	-	-	-	55
XS1940098012	VASAKRONAN AB (PUBL)	A3	272	EUR	Unsecured (LGD 45%)	Bullet		272	Bullet	SE	EUR	Bond	36
Comparability adjustments		-	4	-	-	-15	32	-	-	1	-	-	26
XS0983151282	ROYAL SCHIPHOL GROUP NV	A2	207	EUR	Unsecured (LGD 45%)	Bullet		207	Bullet	NL	EUR	Bond	36

Comparability adjustments		18	16	-	-	-15	3	-	-	-	-	-	55
CH0330143170	PSP SWISS PROPERTY AG	A3	94	CHF	Unsecured (LGD 45%)	Bullet		94	Bullet	CH	CHF	Bond	36
Comparability adjustments		-	36	-	-	-15	-	-	-	1	-	-	58
BE6236397731	INFRABEL SA	AA	284	EUR	Unsecured (LGD 45%)	Bullet		284	Bullet	BE	EUR	Bond	41
Comparability adjustments		33	2	-	-	-15	-	-	-1	-2	-	-	58
XS2003574188	ASSA ABLOY AB	A3	395	USD	Unsecured (LGD 45%)	Bullet		395	Bullet	SE	USD	Bond	110
Comparability adjustments		-	-18	-1	-	-16	-19	-	-	1	-	-	77
CH0398633807	PSP SWISS PROPERTY AG	A3	274	CHF	Unsecured (LGD 45%)	Bullet		274	Bullet	CH	CHF	Bond	34
Comparability adjustments		-	4	-	-	-15	34	-	-	1	-	-	24
US75513EBS90	RAYTHEON TECHNOLOGIES CORP	A3	314	USD	Unsecured (LGD 45%)	Bullet		314	Bullet	US	USD	Bond	106
Comparability adjustments		-	-3	-1	-	-16	-25	-	3	-7	-	-	83
XS1900866077	ASSA ABLOY AB	A3	102	EUR	Unsecured (LGD 45%)	Bullet		102	Bullet	SE	EUR	Bond	34
Comparability adjustments		-	35	-	-	-15	4	-	-	1	-	-	54

Comparables for the guarantor credit rating

Facility under review		CRP						SRP					LRP	Margin
	Issuer	Rating	Maturity	Currency	Structure	Repaym.		Maturity	Repaym.	Country	Currency	Type		
	Province Zeeland	AAA	297	EUR	Unsecured (LGD 45%)	Custom		297	Custom	NL	EUR	guarantee		30
Comparable transactions		**CRP**						**SRP**					**LRP**	**Margin**
ISIN	Issuer	Rating	Maturity	Currency	Structure	Repaym.	Ideosyn.	Maturity	Repaym.	Country	Currency	Type		OAS
BE6236397731	INFRABEL SA	AA	284	EUR	Unsecured (LGD 45%)	Bullet		284	Bullet	BE	EUR	Bond		41
	Comparability adjustments	-	1	-	-	-10	-	-	-1	-2	-	-		30
USY4899GCJ05	KOREA HYDRO & NUCLEAR POWER CO LTD	AA	298	USD	Unsecured (LGD 45%)	Bullet		298	Bullet	KR	USD	Bond		49
	Comparability adjustments	-	-	-	-	-10	1	-	-2	-9	-	-		28
US50064YAM57	KOREA HYDRO & NUCLEAR POWER CO LTD	AA	298	USD	Unsecured (LGD 45%)	Bullet		298	Bullet	KR	USD	Bond		49
	Comparability adjustments	-	-	-	-	-10	2	-	-2	-9	-	-		28
US50066CAN92	KOREAGASCORP	AA	297	USD	Unsecured (LGD 45%)	Bullet		297	Bullet	KR	USD	Bond		46
	Comparability adjustments	-	-	-	-	-10	5	-	-2	-9	-	-		25
US50066AAN37	KOREAGASCORP	AA	297	USD	Unsecured (LGD 45%)	Bullet		297	Bullet	KR	USD	Bond		46
	Comparability adjustments	-	-	-	-	-10	5	-	-2	-9	-	-		25
XS2371174686	NBN CO LTD	AA	351	USD	Unsecured (LGD 45%)	Bullet		351	Bullet	AU	USD	Bond		46
	Comparability adjustments	-	-6	-	-	-10	4	-	-1	-4	-	-		25
XS1722899918	FINGRID OYJ	A2	315	EUR	Unsecured (LGD 45%)	Bullet		315	Bullet	FI	EUR	Bond		51
	Comparability adjustments	-12	-2	-	-	-10	3	-	-	-	-	-		27

XS2367816076	KOREA MIDLAND POWER CO LTD	AA	248	USD	Unsecured (LGD 45%)	Bullet		248	Bullet	KR	USD	Bond	43
Comparability adjustments		-	6	-	-	-10	1	1	-2	-9	-	-	28
USY4899GEG48	KOREA HYDRO & NUCLEAR POWER CO LTD	AA	233	USD	Unsecured (LGD 45%)	Bullet		233	Bullet	KR	USD	Bond	42
Comparability adjustments		-	7	-	-	-10	-	1	-2	-9	-	-	30
US50064YAP88	KOREA HYDRO & NUCLEAR POWER CO LTD	AA	233	USD	Unsecured (LGD 45%)	Bullet		233	Bullet	KR	USD	Bond	42
Comparability adjustments		-	7	-	-	-10	-	1	-2	-9	-	-	30
XS0942796318	KOREAGASCORP	AA	344	EUR	Unsecured (LGD 45%)	Bullet		344	Bullet	KR	EUR	Bond	51
Comparability adjustments		-	-5	-	-	-10	5	-	-2	-9	-	-	25
FR0012971125	DEPARTEMENT DU PUY DE DOME	AA	254	EUR	Unsecured (LGD 45%)	Bullet		254	Bullet	FR	EUR	Bond	42
Comparability adjustments		-	5	-	-	-10	3	1	-3	-9	-	-	27
XS0997565436	SCHIPHOL NEDERLAND BV	A2	213	EUR	Unsecured (LGD 45%)	Bullet		213	Bullet	NL	EUR	Bond	36
Comparability adjustments		-10	10	-	-	-10	3	-	-	-	-	-	27
XS0983151282	ROYAL SCHIPHOL GROUP NV	A2	207	EUR	Unsecured (LGD 45%)	Bullet		207	Bullet	NL	EUR	Bond	36
Comparability adjustments		-10	10	-	-	-10	3	-	-	-	-	-	27
XS2209356398	KOREA SOUTH-EAST POWER CO LTD	AA	221	USD	Unsecured (LGD 45%)	Bullet		221	Bullet	KR	USD	Bond	40
Comparability adjustments		-	9	-	-	-10	1	2	-2	-9	-	-	29
BE0002699800	AQUAFIN NV	AA	448	EUR	Unsecured (LGD 45%)	Bullet		448	Bullet	BE	EUR	Bond	55
Comparability adjustments		-	-17	-	-	-10	3	-	-1	-2	-	-	26
XS1960277934	BASF SE	A2	382	EUR	Unsecured (LGD 45%)	Bullet		382	Bullet	DE	EUR	Bond	63
Comparability adjustments		-14	-10	-	-	-10	-1	-	-	1	-	-	31

XS1688416558	SP POWERASSETS LTD	AA	307	USD	Unsecured (LGD 45%)	Bullet		307	Bullet	SG	USD	Bond	36
Comparability adjustments		-	-1	-	-	-10	15	-	-2	-8	-	-	15
USY4949FAF28	KOREA SOUTHERN POWER CO LTD	AA	220	USD	Unsecured (LGD 45%)	Bullet		220	Bullet	KR	USD	Bond	36
Comparability adjustments		-	9	-	-	-10	5	2	-2	-9	-	-	25
US78462QAE98	SP POWERASSETS LTD	AA	307	USD	Unsecured (LGD 45%)	Bullet		307	Bullet	SG	USD	Bond	36
Comparability adjustments		-	-1	-	-	-10	15	-	-2	-8	-	-	15
US50065AAC80	KOREA SOUTHERN POWER CO LTD	AA	220	USD	Unsecured (LGD 45%)	Bullet		220	Bullet	KR	USD	Bond	36
Comparability adjustments		-	9	-	-	-10	5	2	-2	-9	-	-	25
XS0905658349	ERDOEL LAGER GMBH	AA	332	EUR	Unsecured (LGD 45%)	Bullet		332	Bullet	AT	EUR	Bond	21
Comparability adjustments		-	-4	-	-	-10	23	-	-	-	-	-	7
USY4836TBT70	KOREA EAST WEST POWER CO LTD	AA	182	USD	Unsecured (LGD 45%)	Bullet		182	Bullet	KR	USD	Bond	35
Comparability adjustments		-	13	-	-	-10	-	3	-2	-9	-	-	30
US5006EPAK79	KOREA EAST WEST POWER CO LTD	AA	182	USD	Unsecured (LGD 45%)	Bullet		182	Bullet	KR	USD	Bond	35
Comparability adjustments		-	13	-	-	-10	-	3	-2	-9	-	-	30
BE6246641359	SOCIETE PUBLIQUE DE GESTION DE L'EAU SA	A2	372	EUR	Unsecured (LGD 45%)	Bullet		372	Bullet	BE	EUR	Bond	61
Comparability adjustments		-14	-8	-	-	-10	3	1	-1	-2	-	-	27
XS1716945743	TELSTRA CORPORATION LTD	A2	314	USD	Unsecured (LGD 45%)	Bullet		314	Bullet	AU	USD	Bond	50
Comparability adjustments		-12	-2	-	-	-10	9	-	-1	-4	-	-	21
US50066CAJ80	KOREAGASCORP	AA	193	USD	Unsecured (LGD 45%)	Bullet		193	Bullet	KR	USD	Bond	33
Comparability adjustments		-	12	-	-	-10	3	2	-2	-9	-	-	26

XS1435300519	EASTERN ENERGY GAS HOLDINGS LLC	A2	242	EUR	Unsecured (LGD 45%)	Bullet		242	Bullet	US	EUR	Bond	51
Comparability adjustments		-10	6	-	-	-10	-1	-1	3	-7	-	-	31
US50066AAJ25	KOREAGASCORP	AA	193	USD	Unsecured (LGD 45%)	Bullet		193	Bullet	KR	USD	Bond	33
Comparability adjustments		-	12	-	-	-10	4	2	-2	-9	-	-	26
XS0854759080	ALLIANDER NV	AA	53	EUR	Unsecured (LGD 45%)	Bullet		53	Bullet	NL	EUR	Bond	13
Comparability adjustments		-	28	-	-	-10	-1	1	-	-	-	-	31

Credit rating scale

The Transfer Pricing Solution follows the Zanders rating scale, with credit ratings ranging from C (weakest) to AA (strongest). Each Zanders rating class corresponds to a specific probability of default (PD). The Zanders ratings can be mapped to the rating scales of well-known credit rating agencies such S&P, Fitch and Moody's, for comparison purposes.

The table below provides the Zanders rating classes, PDs and corresponding definitions:

Zanders rating scale				
Zanders	PD	Description	S&P/Fitch	Moody's
AA	0.03%	Excellent	AAA/AA-	Aaa/Aa3
A1	0.04%	Very Strong	A+	A1
A2	0.05%	Strong	A	A2
A3	0.10%	Relatively Strong	A-	A3
BBB1	0.19%	Very Adequate	BBB+	Baa1
BBB2	0.29%	Adequate	BBB	Baa2
BBB3	0.44%	Relatively Adequate	BBB-	Baa3
BB1	0.66%	Very Moderate	BB+	Ba1
BB2	1.01%	Moderate	BB	Ba2
BB3	1.61%	Relatively Moderate - Watch	BB-	Ba3
B1	2.75%	Somewhat Weak - Watch	B+	B1
B2	5.21%	Weak - Special Attention	B	B2
B3	11.25%	Very Weak - Special Attention	B-	B3
C	28.47%	Sub-Standard - Special Attention	CCC+/C	Caa1/C
D	n.a.	Default	-	-

General information

About Zanders

Established in 1994, Zanders is recognized as a thought leader in treasury management, risk management and finance. From its offices in the Netherlands, Belgium, the United Kingdom, Switzerland, Sweden, Japan and the United States, over 200 qualified professionals offer global services to corporates, central banks, financial institutions, public sector entities and non-governmental organizations. For more information, please visit www.zandersadvisory.com.

ZANDERS NETHERLANDS
CentralPark building
Stadsplateau 33
3521 AZ Utrecht, The Netherlands
T: +31 88 991 0200

ZANDERS BELGIUM
Schuttershofstraat 9
2000 Antwerpen, Belgium
T: +32 35 020 710

ZANDERS UNITED KINGDOM
Battersea Studios 2
82 Silverthorne Road
SW8 3HE London, United Kingdom
T: +44 20 7730 2510

ZANDERS SWITZERLAND
Gessnerallee 36
8001 Zurich, Switzerland
T: +41 44 577 7010

ZANDERS UNITED STATES
230 Park Avenue
New York, NY 10169, United States
T: +1 917 853 3220

ZANDERS SWEDEN
Vasagatan 7
Stockholm, 111 20, Sweden
T: +46 800 020 200

ZANDERS JAPAN
1F & 2F Frances Building 2 -19 - 9
Ebisu Nishi, Shibuya-ku,
Tokyo, 150-0021, Japan
T: +81 3 6892 3047

Disclaimer